



The Guide to buying your first home

ARMING YOU WITH THE KNOWLEDGE
YOU'LL NEED AS A FIRST TIME BUYER



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So you're thinking about buying your first home - how exciting!

This is a great moment in your life, but it can also be quite overwhelming the first time round.

As it's a house, it's quite probably the most expensive things you've ever bought so you'll want to get it right.

In this guide, we explain the whole process step by step, right from how to get yourself mortgage ready, through to completion.

We'll break this down into easy to understand chunks.

We promise not to use industry jargon unless we have to, and we'll explain those terms as we go!

Let's start with the basics -

What is a mortgage?

Most people don't have enough cash to buy a house outright (of course!), so they need a mortgage.

The mortgage is a loan that allows you to buy your house. You back it back monthly to a lender over a set amount of time (usually 25+ years).

To determine how much you can borrow, the lender will consider your income and how much you spend each month.

You'll also need a deposit to put down - this amount depends on the market at the time, but is usually 10% or more of the property value.

The mortgage loan is taken out against the property. This means that if you stop paying your mortgage repayments each month, the house could be repossessed.

Before you start looking - Get yourself mortgage ready

In preparation for buying your first home it's a very good idea to get yourself "mortgage ready". This means you'll make it easier for lenders to assess what you can afford.

This will put you in a stronger position when applying for your mortgage.

So what do you need to do?

The lender will look at your income, expenses, any debts you have and how reliable you've been at repaying them.

Loans

We'd advise that any outstanding loans are paid off before you apply for a mortgage, if this is possible.

However, if you have a loan this doesn't mean you're unsuitable for a mortgage so don't put off speaking to a mortgage advisor. They are there to advise you on the best mortgage type for your circumstances.

Before you start looking - **Get yourself mortgage ready**

Bills

Pay your utility bills, phone bill, broadband and cable tv on time. This will show that you are reliable at making monthly payments.

Electoral roll

Make sure you're registered and on the electoral roll for the correct address. This makes it easier for lenders to trace your address when doing checks on you.

In addition, ensure your bills are all addressed to the this address - this is a surprisingly easy way to improve your credit score!

Regular saving

This is good for 2 reasons:

- 1) Regular savings each month show the lender where your deposit has come from (important)
- 2) It shows that you have money available outside of your usual expenses, which could be used to pay your mortgage

Before you start looking - **Get yourself mortgage ready**

Your credit rating

Using a credit card can help boost your credit score, as well as show that you're able to live within your means and pay off what you owe.

Make sure the credit card is registered to the address is where you're currently living, and that it is paid off on time each month.

Remember

The whole point of doing the above is to prove that your spending habits will leave you being able to afford the mortgage payments.

Any money you can save now will contribute to the lender's positive view of you.

Not using your gym membership?

Netflix or TV subscriptions not getting as much use recently?

Cancelling these and saving up additional money each month, no matter how small, will all help!

What is a credit rating and why does yours need to be checked?

Your credit rating

If you were going to lend somebody a large sum of money, you'd want to be sure that they will pay it back and don't have any large hidden debts, right?

The credit rating is one way that a lender can assess this about you. They can use this to help decide whether they want to lend you money, how much to lend, and how much interest to charge.

The better your credit score, the better chance you'll have of getting the mortgage deal you want, which in turn means getting the house you desire.

As well as what has already been mentioned in the "getting mortgage ready" section, it's highly recommended to do the following...

1) Check your credit rating.

You can use a service such as Money Saving Expert's Credit Club to get a detailed report of your credit history.

If there's anything inaccurate on there, you'll have the opportunity to put it right before applying for your mortgage.

2) Show a history of your accounts.

By providing your mortgage advisor with this information, they'll be able to get a better understanding of your history and which lenders are best suited to you.

3) Don't apply for extra credit

This is especially important if you have bad credit. Concentrate on paying off your current credit, and avoid having lots of credit checks done (which can work against you).

4) Don't keep unused credit cards.

Close the accounts of unwanted cards and cut them up when disposing of them.

Multiple unused credit cards are a fraud risk, and can appear to be misleading as to how much credit you have available.

Before you start your search - How much can you afford to borrow?

Knowing how much you can borrow is key to understanding what type of home you can afford. When you know your budget, you're in a much better position to begin the property search and get things moving.

You can use online affordability calculators to get a ballpark figure. An even better idea is to speak to an advisor, who'll be able to give you a much clearer idea of your budget.

Getting a Decision in Principle (DIP)

***also referred to as a Mortgage in Principle (MIP), and Agreement in Principle (AIP)**

Before you apply for a mortgage, your mortgage advisor will help you obtain a DIP.

This is a certificate which outlines how much money a lender is willing to lend you. This decision is made from a number checks (credit score, income, outgoing, etc...)

Having a DIP shows an estate agent that you're able to move quickly should you make an offer. This is communicated to the seller and can help your negotiating power (subject to the full mortgage application being approved by the lender)

Your deposit - **Bank of mum and dad**

It can be difficult for many young people to get the money together for a deposit, so it's common for parents or relatives to lend a hand. If your parents are planning to support you with getting the deposit together, there's an official process you need to follow where the money is "gifted" to you.

What does this involve?

It means that your parents aren't requiring you to pay this financial support back to them (hooray!). This is a preferable option compared to the money being loaned to you - as these repayments would be added to your outgoings and will affect what you can afford.

Guarantor mortgages

Occasionally, a relative can act as a guarantor for your mortgage. This means they will be required to pay your mortgage should you be unable to.

This is a less common arrangement, as the lender needs to take into account their normal expenses on top of covering your payments, in the situation that you cannot.

Starting your search

Before you even open your computer...

Write a list of the things that you **MUST** have, and the things that are desirable (but not essential), such as:

- No. of bedrooms
- Garden
- Parking
- Nearby amenities

This will help you narrow down your search results.

Where to search

- Rightmove
- Zoopla
- Other estate agents websites
- Property developers

When you find some homes that you like

Consider what the area is like

- How quiet or busy will it get
- How long your commute will be
- Are there schools nearby
- Transport links
- Nearby fun stuff - parks, bars restaurants, shopping, etc...

Choosing a solicitor and survey

There's already a lot of expenses associated with buying a house, so additional costs such as a survey are often unwelcome - but don't dismiss a survey.

A survey can reveal issues that are difficult to notice with an untrained eye, and it can be an invaluable service when going through the buying process.

What types of survey should you know about?

Mortgage valuation

This is usually free and carried out by the lender, purely for valuation purposes. You are unlikely to see the report from this.

Homebuyers survey

For properties in good condition, this is often the best option. It includes a valuation, as well as inspecting the building for any major faults, along with costs for any repairs.

Full structural survey

This is an in-depth survey and is common for older properties or listed properties. It includes a full structural survey. It also gives you the ability to challenge anything with the buyer from a legal perspective.

Choosing a solicitor and survey

Condition reports

Usually carried out for new build properties. No advice or recommendations for repairs / maintenance is included.

Each survey will come with a fee, which you can find out from your lender or local surveyor.

Solicitors and conveyancing

Your solicitor will take care of all the legal requirements involved in buying a property (often referred to as conveyancing) once your offer has been accepted.

Your mortgage advisor will often recommend one, but you're free to choose another you've been referred to by a friend or relative.

The buyers chain

This refers to each buyer / seller involved in the process.

E.g. You're buying a property from one seller, who is also buying from somebody else, etc...

Each "link" in the chain has their own solicitor, lender and agent.

Unfortunately, the process will only go as fast as the slowest link in your chain.

To give your transaction the best chance of going through swiftly, make sure sure stay on top of any admin you're required to do and respond to emails related to your purchase promptly.

What fees will you need to pay?

There's a range of fees that need to be covered, and it's important to take these into account.

- **Product fees** - some mortgages come with an associated arrangement / product fee.
- **Mortgage advisor fee** - this is a charge for the specialist skills in searching for and applying for the mortgage on your behalf.
- **Legal fees** - your solicitor / conveyancer will be needed to fulfil the legal requirements for the purchase.
- **Stamp duty** - If you buy a property over a certain price, you'll have to pay stamp duty. In England, this is called Stamp Duty Land Tax (SDLT), Wales call this Land Transaction Tax (LTT) and in Scotland it's called Land and Buildings Transaction Tax (LBTT). The amount depends on the price of the property. Properties up to £300,000 are exempt for first time buyers.
- **Valuation fee** - The type of valuation / survey will affect the cost. The more in depth the survey, the more expensive it will be.
- **Insurance** - you are required to take out buildings insurance with your mortgage. This covers against damage caused by fire, flooding etc... You may also chose to take out contents insurance, income protection, and life insurance.